

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

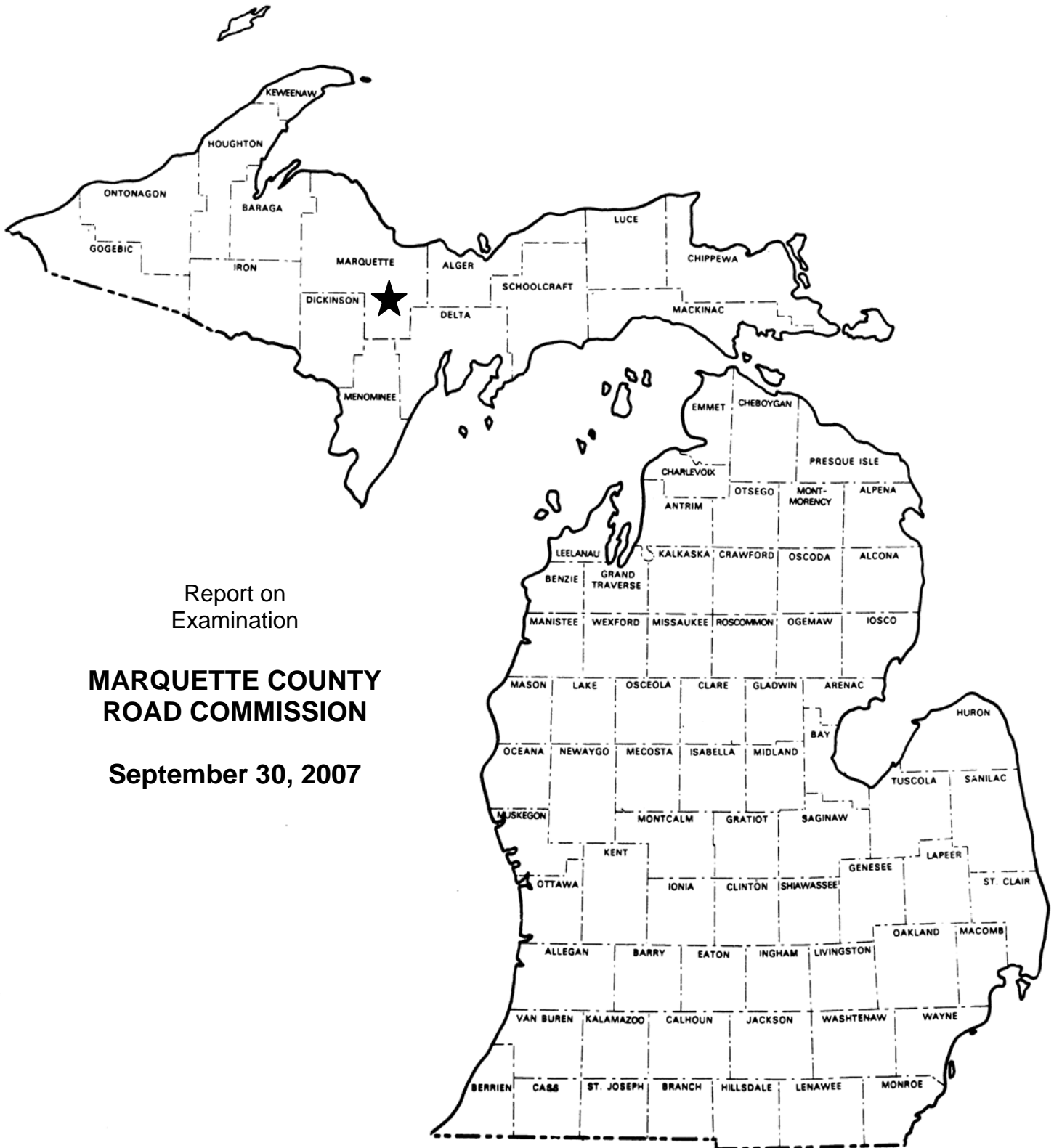
1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Report on  
Examination

**MARQUETTE COUNTY  
ROAD COMMISSION**

**September 30, 2007**

MARQUETTE COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Darryll L. Sundberg  
Chair

Robert L. Pecotte  
Vice-Chair

Russell Williams  
Member

David E. Hall  
Member

Carolyn Hietamaki  
Member

Jim Iwanicki  
Engineer-Manager

Mike Harrington  
Maintenance Superintendent

Kurt Taavola  
Director of Engineering

Mary Herman  
Finance and Office Manager

COUNTY POPULATION--2000  
64,032

STATE EQUALIZED VALUATION--2007  
\$2,307,475,505



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

March 27, 2008

Marquette County Road Commission  
Board of County Road Commissioners  
1610 North Second Street  
Ishpeming, Michigan 49849

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying basic financial statements of the Marquette County Road Commission, a component unit of Marquette County, Michigan, as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette County Road Commission as of September 30, 2007 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2008 on our consideration of the Marquette County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of the audit.

The Management's Discussion and Analysis on pages 1 through 10 and the budget comparison information in Exhibits I and J are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprises the Marquette County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits K through M is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# MARQUETTE COUNTY ROAD COMMISSION

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# **MARQUETTE COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Marquette County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2007. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### ***Overview of the Financial Statements***

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### **Reporting the Road Commission as a Whole**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

**MARQUETTE COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

***Report of the Road Commission's Major Fund***

The fund financial statements begin on page thirteen and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

***The Road Commission as a Whole***

The Road Commission's net assets increased approximately 5.67% or \$2,648,808 from \$46,678,993 to \$49,327,801 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

The net capital assets-net of related debt, increased by \$2,753,562 primarily as a result of the infrastructure asset additions being more than the related depreciation. The restricted net assets decreased by \$104,754 or 2.05%.



**MARQUETTE COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net assets as of the year ended September 30, 2007 are as follows:

	Governmental Activities 09/30/06	Governmental Activities 09/30/07	Variance	Percentage
Current and Other Assets	\$ 6,372,081	\$ 7,122,567	\$ 750,486	11.78%
Net Capital Assets	<u>42,579,288</u>	<u>45,132,850</u>	<u>2,553,562</u>	<u>6.00%</u>
Total Assets	<u>48,951,369</u>	<u>52,255,417</u>	<u>3,304,048</u>	<u>6.75%</u>
Current Liabilities	979,280	1,150,293	171,013	14.87%
Long-Term Liabilities	<u>1,293,096</u>	<u>1,777,323</u>	<u>484,227</u>	<u>27.24%</u>
Total Liabilities	<u>2,272,376</u>	<u>2,927,616</u>	<u>655,240</u>	<u>28.84%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	41,579,288	44,332,850	2,753,562	6.62%
Restricted	<u>5,099,705</u>	<u>4,994,951</u>	<u>(104,754)</u>	<u>-2.05%</u>
Total Net Assets	<u>\$ 46,678,993</u>	<u>\$ 49,327,801</u>	<u>\$2,648,808</u>	<u>5.67%</u>

The following table presents a two year comparison of the Statement of Activities:

	2006	2007	Difference	Percent
Program Revenue				
Charges for Services	\$ 2,148,960	\$ 2,736,789	\$ 587,829	27.35%
Operating Grants and Contributions	5,941,698	6,006,054	64,356	1.08%
Capital Grants and Contributions	2,292,711	3,028,590	735,879	32.10%
General Revenue				
Gain on Equipment Disposal		24,750	24,750	100.00%
Total Revenue	<u>10,383,369</u>	<u>11,796,183</u>	<u>1,412,814</u>	<u>13.61%</u>
Expenses				
Primary Routine and Preventive Maintenance	2,214,303	1,689,199	(525,104)	-23.71%
Local Routine and Preventive Maintenance	2,549,989	2,825,817	275,828	10.82%
State Trunkline Maintenance	2,014,613	1,912,824	(101,789)	-5.05%
Net Equipment Expense	549,426	745,745	196,319	35.73%
Net Administrative Expense	353,188	410,086	56,898	16.11%
Other Expense	55,418	21,926	(33,492)	-60.44%
Infrastructure Depreciation Expense	1,464,578	1,537,775	73,197	5.00%
Compensated Absences	(10,491)	(38,633)	(28,142)	268.25%
Interest Expense	<u>49,483</u>	<u>42,636</u>	<u>(6,847)</u>	<u>100.00%</u>
Total Expenses	<u>9,240,507</u>	<u>9,147,375</u>	<u>(93,132)</u>	<u>-1.01%</u>
Increase in Net Assets	<u>\$ 1,142,862</u>	<u>\$ 2,648,808</u>	<u>\$ 1,505,946</u>	<u>131.77%</u>
Ending Net Assets	<u>\$ 46,678,993</u>	<u>\$49,327,801</u>	<u>\$ 2,648,808</u>	<u>5.67%</u>

**MARQUETTE COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The total revenue increased by 13.61 percent from 2006 to 2007 mostly due to a significant increase in contributions from townships, other governmental and private sources during 2007.

The expenses decreased by 1.01 percent or \$93,132 from 2006 to 2007. The most significant change in the expenses were related to the net equipment expense, which increased by \$196,319 and the net decrease between primary and local routine and preventive maintenance of \$249,276 and a decrease in state trunkline expenses of \$101,789.

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2007, the fund balance of the General Operations Fund decreased by \$143,386 compared to an increase of \$331,585 in the fund balance for the fiscal year ended September 30, 2006. Total operating revenues were \$11,796,183, an increase of \$1,410,530 as compared to last year. This change in revenues resulted from an increase in contributions from townships, other governmental and private sources during 2007, as well as related Federal and State grants from the new Jobs Today Program. In addition, a settlement was reached on the Silver Lake Flood of 2003, in the amount of \$350,000 and was received by the Marquette County Road Commission during FY 2007.

Total expenditures were \$11,939,569, an increase of \$1,885,501 in comparison to last year. This change in expenditures is primarily the result of an increase in the preservation/structural improvement projects and two new roads accepted by the Road Commission during 2007. There was also an increase in the capital outlay of \$187,811 during 2007, as compared to 2006. During FY 2007, a Retiree Health Funding Vehicle (Trust Fund) was established with MERS of Michigan to be used for funding Other Post Employment Benefits (OPEB), as required by GASB 45. An initial deposit of \$250,000 was made to the OPEB Trust following receipt of the Silver Lake Flood settlement.

**MARQUETTE COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Revenues				
Licenses and Permits	\$ 18,210	\$ 20,933	\$ 2,723	14.95%
Federal Grants	1,333,911	1,082,424	(251,487)	-18.85%
State Grants	6,194,849	6,454,566	259,717	4.19%
Contributions From Local Units	481,569	1,222,307	740,738	153.82%
Charges for Services	2,068,922	1,987,475	(81,447)	-3.94%
Interest and Rents	224,080	275,347	51,267	22.88%
Other Revenue	64,112	753,131	689,019	1074.71%
Total Revenues	<u>10,385,653</u>	<u>11,796,183</u>	<u>1,410,530</u>	<u>13.58%</u>
Expenditures				
Public Works	9,575,653	11,349,742	1,774,089	18.53%
Capital Outlay	159,380	347,191	187,811	117.84%
Debt Service	319,035	242,636	(76,399)	-23.95%
Total Expenditures	<u>10,054,068</u>	<u>11,939,569</u>	<u>1,885,501</u>	<u>18.75%</u>
Excess of Expenditures Over Revenues	331,585	(143,386)	(474,971)	143.24%
Fund Balance--Beginning	<u>5,261,216</u>	<u>5,592,801</u>	<u>331,585</u>	<u>6.30%</u>
Fund Balance--Ending	<u>\$ 5,592,801</u>	<u>\$ 5,449,415</u>	<u>\$ (143,386)</u>	<u>-2.56%</u>

***Budgetary Highlights***

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2007 was \$16,776,947, which was \$2,555,834 more than the final amended revenue budget. The budget was amended to reduce the amount of Federal and State aid for various bridge and road projects that was originally planned, but did not start during the year. The actual revenue received for the year was \$11,796,183, which was \$2,424,930 less than the final amended budget. This was due, in large part, to the Road Commission receiving less Federal and State contracted projects and less in township contributions during the year than included on the final amended budget.

**MARQUETTE COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Road Commission's original expenditure budget was projected at \$17,585,256, while the final amended budget was \$13,461,892, the budget was reduced primarily in the primary preservation/structural improvement projects and net equipment expense. The actual expenditures were \$11,939,569 resulting in actual expenditures being less than budgeted by \$1,522,323. This was primarily due to the Road Commission having more costs associated with maintenance and projects on the local and primary county road system and the acceptance of two roads into the county road system during the year.

***Capital Assets and Debt Administration***

**Capital Assets**

As of September 30, 2007, the Road Commission had \$45,132,850 invested in capital assets as follows:

	09/30/06	09/30/07	Total Percentage Change
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 272,377	\$ 272,377	0.00%
Infrastructure-Land and Improvements	21,017,850	22,313,451	5.81%
Subtotal	21,290,227	22,585,828	5.74%
Capital Assets Being Depreciated			
Buildings	2,103,724	2,103,724	0.00%
Road Equipment	11,054,209	11,299,828	2.17%
Shop Equipment	151,310	151,310	0.00%
Yard and Storage	697,361	697,361	0.00%
Office Equipment	197,733	197,733	0.00%
Engineer's Equipment	74,095	75,417	1.75%
Vehicles	36,975	36,975	0.00%
Depletable Assets	161,686	161,686	0.00%
Infrastructure--Bridges	4,984,372	5,908,291	15.64%
Infrastructure--Roads	27,987,783	29,999,364	6.71%
Subtotal	47,449,248	50,631,689	6.29%
Total Capital Assets	68,739,475	73,217,517	6.12%
Total Accumulated Depreciation	(26,160,188)	(28,084,667)	6.85%
Total Net Capital Assets	\$ 42,579,287	\$ 45,132,850	5.66%

**MARQUETTE COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Road Commission reported the infrastructure during the current year in the amount of \$4,231,101. The infrastructure recorded, during 2007, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as recommended by GASB No. 34.

This year's major capital asset additions included the following:

Construction and Reconstruction of Bridges	\$ 2,935,500
Various Resurfacing Projects and Related Land/Right-of-Way	1,295,601
Road Equipment	342,919
Engineer's Equipment	<u>4,272</u>
Total Additions	<u><u>\$ 4,578,292</u></u>

There were no new installment purchase agreements entered into during 2007; all the equipment was acquired with Road Commission funds.

Debt

At year end, the Road Commission had a balance of \$800,000 in the 2001 MTF Revenue bond and has paid \$200,000 in principal during 2007 as required in the bond amortization. The bond will be paid of in 2011. There was no new debt acquired during 2007.

More detailed information about the Road Commission's long-term liabilities for vested employee benefits is presented in Note G to the financial statements.

***Economic Factors and Next Year's Budget***

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Marquette County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Marquette County.

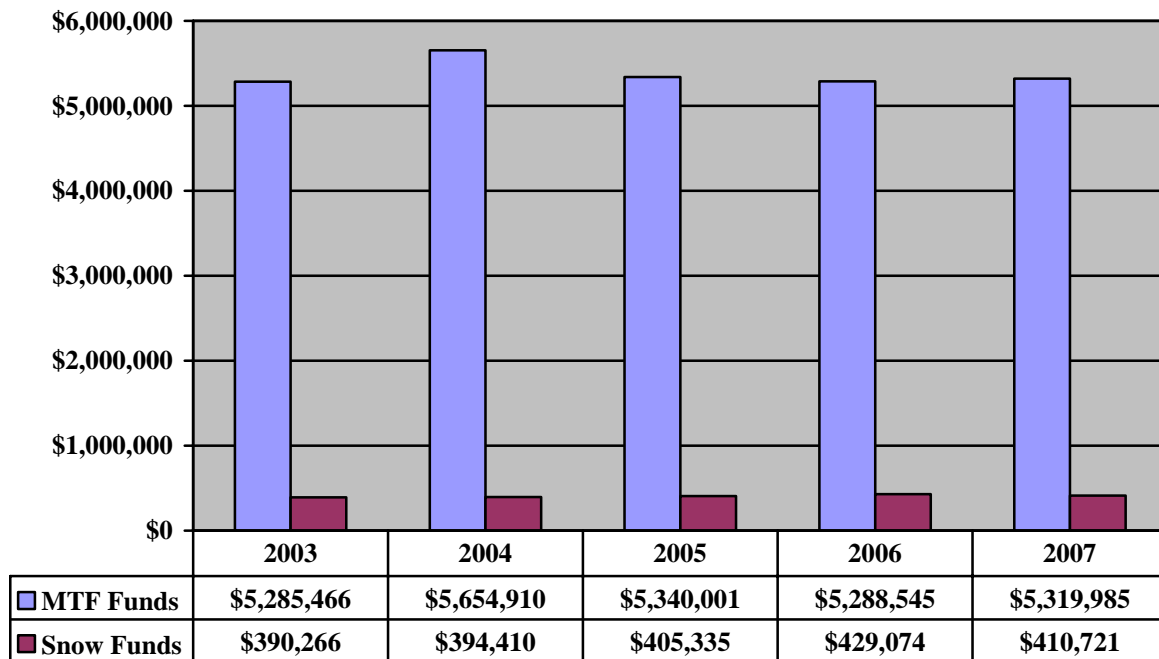
The needs and demands placed on agencies responsible for maintaining the Michigan Transportation System continue to grow. The cost of equipment, material and personnel continue to increase since the gas tax was last increased in 1997. Throughout the state, road commissions continued to struggle with budget issues during the past year. Several road commissions had significant layoffs and shutdowns in 2007. In addition, road commissions have reported to the County Road Association of Michigan (CRAM) that they are unable to purchase needed equipment, maintain adequate staffing levels and provide matching funds for projects. The lack of needed funding results in reduced basic service levels, deferred maintenance and less investment in capital improvements for roads, bridges and culverts.

# MARQUETTE COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The decline of the Michigan Transportation Fund (MTF) revenue cannot keep pace with inflation, let alone the huge cost increases for construction and maintenance. From 2003 to 2007, construction material prices have increased 42%. Reduced spending power and the erosion of the basic allocated funding source limits the ability to undertake proper long-range planning and manage the public assets. Local road agencies, including Marquette County, are simply not able to keep up with basic transportation needs. Below is a summary of the trends in the MTF revenue allocations to the Marquette County Road Commission during recent years.

**Marquette County Road Commission  
MI Transportation and Snow Funds  
2003 - 2007**



Source: Act 51 Annual Reports

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the major factors is the Michigan Transportation Fund (MTF). The MTF provides the primary operating revenue for the Road Commission. The MTF, Act 51 of 1951, provides for the distribution of over \$2.0 billion of fuel taxes and vehicle registration fees collected in Michigan. After deductions of 1 cent of the 1997 gas tax increase for bridges, \$43 million for state debt service and deductions for other state agencies, public transit, economic development and local bridge programs, the balance is distributed by formula; state-39.1%, counties-39.1%, and cities and villages-21.8%.

**MARQUETTE COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes by the State of Michigan in trailer plate fee collections resulted in a small, one year spike in the MTF in 2004. Because the trailer plates are now purchased one time instead of annually, revenues from the collections increased the MTF funding for 2004, with a substantial decrease in the succeeding years. The trailer plate collections in 2008 are expected to remain at 2007 levels, significantly down from 2004 levels.

The State of Michigan also continues to allow MTF funds to be utilized by, and provide funding for, other State departments. This money comes off the top of the MTF and results in fewer dollars available to the Michigan Department of Transportation, County Road Commissions and City and Village street departments.

Fuel tax collections are also expected to continue in a downward trend in 2008 due to less consumption. The less consumption results from higher fuel prices, the economic conditions throughout the State, more fuel efficient vehicles, and increased use of hybrid vehicles and alternative fuels. If there is less consumption there will be less Michigan Transportation Fund tax collections and fewer dollars distributed to road agencies.

Because of the above stated reasons, the total anticipated MTF funding for Marquette County was estimated to be 4% less for the 2008 fiscal year as compared to 2007.

Another factor considered when preparing the fiscal year 2008 budget was the availability of funding sources other than the MTF. In Marquette County, the Road Commission anticipates several road projects and one bridge replacement project to be partially funded by various State and Federal agencies. In addition, the Local Jobs Today (LJT) Program will provide additional matching funds to accelerate several projects on the Federal Aid System. The LJT program will provide matching funds for certain qualifying projects that are let to contract by September 5, 2008.

While a substantial portion of Road Commission revenue comes from State and Federal sources to partially fund improvement projects, local funding is also needed to provide matching dollars. Township millages and township contributions are also anticipated to provide revenue toward many projects and maintenance activities in the 2008 fiscal year.

In summary, key revenue factors and expenditure concerns were analyzed during the preparation of the 2008 fiscal year budget. Revenue factors included: declining allocated funding from the MTF; limited local funding resources and limited availability of other competitive State and Federal program funds. Expenditure concerns included: one loan (\$200,000 principal due in FY 2008); fuel costs anticipated to be at unprecedented levels, major increases in other materials such as, asphalt, aggregate and steel; continued employee health insurance cost increases; and unfunded employee retirement liability. All of these concerns, in addition to the general items previously discussed, were considered when adopting the budget for 2008.

**MARQUETTE COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 48% of its revenue from the fuel tax collected in 2007. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission received approximately 15% of its revenues from Federal and State grants during 2007. Charges for services, including the State Trunkline Maintenance, accounted for 16% of revenue, and revenue received from townships and other sources equaled an additional 16%. This amount fluctuates with the approved road projects and depends on what and how much is available in Federal and State funds. During 2008, we expect to receive \$1,352,116 in Federal and State aid for road projects. The above items were considered when adopting the budget for 2008. Amounts available for appropriation in the 2008 budget are \$16,841,780.

The board realizes, and the reader should understand, that there are not sufficient funds available to adequately address the needs of the county road system, as a whole. Additional drainage improvements, preventative maintenance, reconstruction, bituminous resurfacing and surfacing of gravel roads throughout the county are needed. Many needed projects and activities remain unfunded and priorities must be established for the entire system. The preparation of the budget is challenging, however, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Marquette County.

***Contacting the Road Commission's Financial Management***

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Marquette County administrative offices at: 1610 North Second Street, Ishpeming, Michigan 49849.



**MARQUETTE COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2007**

**EXHIBIT A**

**ASSETS**

Cash	\$ 4,106,354
Accounts Receivable	
State--Trunkline Maintenance	23,962
Michigan Transportation Fund	919,762
State--Other	78,456
Due on County Road Agreements	920,811
Sundry Accounts	54,081
Inventories	
Road Materials	608,350
Equipment Parts and Materials	252,501
Prepaid Expenses	158,290
Capital Assets (Net of Accumulated Depreciation)	<u>45,132,850</u>
Total Assets	<u>52,255,417</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	707,735
Due to State of Michigan	44,737
Accrued Liabilities	147,821
Deferred Revenue	
Forest Road Funds	250,000
Noncurrent Liabilities	
Advance From State	499,860
Advance--Permit Fees	23,000
Bonds Payable--Due in One Year	200,000
Bonds Payable--Due in More Than One Year	600,000
Vested Employee Benefits Payable	<u>454,463</u>
Total Liabilities	<u>2,927,616</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	44,332,850
Restricted for County Roads	<u>4,994,951</u>
Total Net Assets	<u>\$ 49,327,801</u>

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2007**

**EXHIBIT B**

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,689,199
Local Road Routine and Preventive Maintenance	2,825,817
State Trunkline Maintenance	1,912,824
Fuel and General Services	21,926
Net Equipment Expense	745,745
Net Administrative Expense	410,086
Infrastructure Depreciation	1,537,775
Compensated Absences	(38,633)
Interest Expense	42,636
	<hr/>
Total Program Expenses	9,147,375
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	20,933
Charges for Services	2,715,856
Operating Grants and Contributions	
Michigan Transportation Funds	5,730,707
Investment Earnings	275,347
Capital Grants and Contributions	
Federal Grants	1,082,424
State Grants	723,859
Contributions	1,222,307
	<hr/>
Total Program Revenue	11,771,433
	<hr/>
Net Program Revenue	2,624,058
	<hr/>
General Revenue	
Gain on Equipment Disposal	24,750
	<hr/>
Total General Revenues	24,750
	<hr/>
Change in Net Assets	2,648,808
	<hr/>
Net Assets	
Beginning of Year	46,678,993
	<hr/>
End of Year	\$ 49,327,801
	<hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION  
BALANCE SHEET  
September 30, 2007**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	General Operating Fund
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	\$ 4,106,354
Investments	
Accounts Receivable	
State Trunkline Maintenance	23,962
State--Other	78,456
Michigan Transportation Fund	919,762
Sundry Accounts	54,081
Due on County Road Agreements	920,812
Inventories	
Road Materials	608,350
Equipment Parts and Materials	252,501
Prepaid Expenses	158,290
Total Assets	<u>\$ 7,122,568</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 707,735
Due to State	44,737
Accrued Liabilities	147,821
Escrow Payable	
Advances	
Permit Fees	23,000
State Trunkline Equipment Purchase	345,958
State Trunkline Maintenance	153,902
Deferred Revenue--Forest Road Funds	250,000
Total Liabilities	<u>1,673,153</u>
Fund Equities	
Fund Balance	
Reserved for	
Inventory	860,851
Group Life Self Insurance	51,656
Long-Term Receivables	221,000
Unreserved and Undesignated	4,315,908
Total Fund Equities	<u>5,449,415</u>
Total Liabilities and Fund Equities	<u>\$ 7,122,568</u>

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND  
BALANCE TO THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2007**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 5,449,415
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	45,132,850
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Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,254,464)</u>
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Net Assets of Governmental Activities	<u><u>\$ 49,327,801</u></u>
---------------------------------------	-----------------------------

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended September 30, 2007**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 20,933
Federal Grants	1,082,424
State Grants	6,454,566
Contributions From Local Units	1,222,307
Charges for Services	1,987,475
Interest and Rents	275,347
Other Revenue	<u>753,131</u>
Total Revenues	<u>11,796,183</u>
Expenditures	
Public Works	11,349,742
Capital Outlay	347,191
Debt Service	<u>242,636</u>
Total Expenditures	<u>11,939,569</u>
Excess of Revenues Over Expenditures	<u>(143,386)</u>
Fund Balance--October 1, 2006	<u>5,592,801</u>
Fund Balance--September 30, 2007	<u><u>\$ 5,449,415</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2007**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ (143,386)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures.  
However, in the Statement of Activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. This is the amount  
by which capital outlays exceeded depreciation in the current period. 2,553,561

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and, therefore, are not reported as expenditures  
in governmental funds. (Increase in compensated absences and decrease in  
interest expense) 38,633

Change in Net Assets of Governmental Activities \$2,648,808

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION  
FIDUCIARY FUND--STATEMENT OF NET ASSETS  
For the Fiscal Year Ended December 31, 2007**

**EXHIBIT G**

	<u>Pension Trust</u>
<b><u>ASSETS</u></b>	
Investments at Fair Market Value	
American Express Simplified Plan	<u>\$ 112,959</u>
Total Assets	<u>112,959</u>
<b><u>LIABILITIES</u></b>	
Total Liabilities	<u>-</u>
<b><u>NET ASSETS</u></b>	
Held in Trust for Pension Benefits	<u><u>\$ 112,959</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**PROFIT SHARING PLAN**  
**For the Year Ended December 31, 2007**

**EXHIBIT H**

**ADDITIONS**

Contributions	
Employer Contributions	<u>\$ 3,972</u>
Total Contributions	<u>3,972</u>
Investment Earnings	
Capital Gain (Loss)	4,170
Net Increase in Fair Value of Investments	<u>1,800</u>
Total Investment Earnings	<u>5,970</u>
Net Investment Earnings	<u>5,970</u>
Total Additions	<u>9,942</u>

**DEDUCTIONS**

Benefits Paid to Participants and Beneficiaries	<u>18</u>
Total Deductions	<u>18</u>

**CHANGES IN NET ASSETS** 9,960

Net Assets Held in Trust for Profit Sharing Plan	
Beginning of Year	<u>102,999</u>
End of Year	<u><u>\$ 112,959</u></u>

**The Notes to Financial Statements are an integral part of this statement.**



## MARQUETTE COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Marquette County Road Commission conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by Marquette County Road Commission.

#### NOTE A--REPORTING ENTITY

The Marquette County Road Commission, which is established pursuant to the County Road Law Michigan Compiled Law (MCL) 224.1, is governed by an appointed 5-member board of county road commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Marquette County Road Commission, a discretely presented component unit of Marquette County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Marquette County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets. All of the net assets that are not related to capital assets are classified as restricted due to legal constraints.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first then unrestricted resources as they are needed.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Profit Sharing Plan Trust Fund

The Profit Sharing Plan Trust Fund is accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases and decreases in net total assets. This fund follows the accrual basis of accounting. Revenues are recorded when they are measurable and earned, and expenditures when the related liability is incurred.

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investments are recorded at cost.

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

#### Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Marquette County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years and all equipment items (regardless of purchase prices or useful life) that have a Schedule C rate. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In September 2006, The Road Commission implemented the retroactive reporting for infrastructure assets. GASB Statement No. 34 required phase II governments (Marquette County) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account for noninfrastructure related assets. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund for the noninfrastructure related assets; the infrastructure asset depreciation is reported as a separate line-item in the Statement of Activities. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

#### Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board.

Also, the board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring up to 20% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

#### Budget Violations

Public Act 2 of 1968, Section 19(1), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the final amended budget:

<u>Activity</u>	<u>Final Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
Local Road Construction/Capacity Improvements		\$ 373,538	\$ (373,538)
Local Road Structure			
Preservation/Structural Improvements	\$ 1,299,000	1,311,312	(12,312)
State Trunkline Maintenance	1,850,400	1,867,584	(17,184)
State Trunkline Non-Maintenance		45,240	(45,240)
Net Equipment Expense	(35,250)	745,745	(780,995)
Net Administrative Expense	406,632	410,086	(3,454)

### NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The Road Commission has designated two financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Operating Fund</u>	<u>Pension Trust</u>	<u>Total</u>
Cash	\$4,106,354		\$4,106,354
Investments		\$ 112,959	112,959
Total	<u>\$4,106,354</u>	<u>\$ 112,959</u>	<u>\$4,219,313</u>

The bank balance of the Road Commission's deposits is \$4,480,443, of which \$151,656 is covered by Federal depository insurance.

### Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law.

As of September 30, 2007, the Road Commission had the following investments (which are not subject to categorization):

	<u>Reported Amount (Fair Value)</u>
Investments	
Northwestern Mutual Insurance Annuities	<u>\$ 112,959</u>
Total Primary Government	<u>\$ 112,959</u>

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The investment policy did not address interest rate risk.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--DEPOSITS AND INVESTMENTS (Continued)

#### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization. The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

### NOTE E--DEFERRED COMPENSATION PLAN

The Marquette County Road Commission offers all Road Commission employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. During 1998, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator is ICMA-RC Services, LLC and is the agent of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--RESERVE FOR SELF-INSURANCE

The Marquette County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The Life Insurance Reserve Account was established in 1989. The reserve account was established at \$50,000, equal to what the approximate premium would be on the respective coverage. The reserve is funded by interest earnings and/or annual transfers (if necessary to maintain the minimum balance after payouts) to equal to what the approximate premium would be on the coverage.

	<u>Life Insurance Reserve</u>
Balance--October 1, 2006	\$ 50,000
Additions	
Interest Earned	<u>1,656</u>
Balance--September 30, 2007	<u><u>\$ 51,656</u></u>

### NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances 10/01/06</u>	<u>Additions (Reductions)</u>	<u>Balances 09/30/07</u>	<u>Due Within One Year</u>
Loan Contract Payable				
Michigan Transportation Revenue Bonds	\$1,000,000	\$ (200,000)	\$ 800,000	\$ 200,000
Vested Employee Benefits Payable				
Vacation Benefits	77,943	1,770	79,713	
Sick Leave Benefits	<u>415,153</u>	<u>(40,403)</u>	<u>374,750</u>	
Total	<u><u>\$1,493,096</u></u>	<u><u>\$ (238,633)</u></u>	<u><u>\$1,254,463</u></u>	<u><u>\$ 200,000</u></u>



# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

#### Michigan Transportation Fund (MTF) Revenue Note of 2001

The MTF Revenue Note of 2001 "Bond" was issued on June 7, 2001 for the purchase of equipment and paying off debt related to equipment purchases in the past. The bond's interest is due semi-annually on February 7 and August 7<sup>th</sup> at a rate ranging from 4 to 4.5 percent and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 200,000	\$ 35,300	\$ 235,300
2009	200,000	26,800	226,800
2010	200,000	18,000	218,000
2011	<u>200,000</u>	<u>9,000</u>	<u>209,000</u>
Total	<u>\$ 800,000</u>	<u>\$ 89,100</u>	<u>\$ 889,100</u>

#### Vacation Benefits

The Road Commission's employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Vacation time cannot be accumulated. Any vacation time earned for any one year and not used within that year shall be considered lost to the employee. An employee can make a special written request presented and approved by the board to carry forward a maximum of forty (40) hours.

#### Sick Leave Benefits

The sick leave benefits liability recorded as long-term debt in the Statement of Net Assets reflects only those vested benefits which would be payable should an employee quit. The Road Commission's employment policies provide that sick leave is accumulated at the rate of 1 day per month for all regular employees during the month.

An employee shall be paid their accumulated sick leave up to a maximum of fifteen hundred (1,500) hours, only upon death or upon termination of employment after age sixty (60) years or, for employees have twenty-five (25) years or more of continuous service, upon termination of employment after fifty-five (55) years of age, unless terminated for cause. Upon death of an employee payment shall be made to the beneficiaries designated in the employee's group life insurance with the employer, or if no such designation has been made by the employee, to the employee's estate. There is no limit on the accumulation of sick leave, and accumulated benefits shall be paid at the employee's prevailing rate of pay in accordance with the union agreement.

## MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS

Following is a summary of the changes in the capital assets at September 30, 2007.

	Account Balances 10/1/06	Additions	Deductions	Account Balances 09/30/07
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 272,377			\$ 272,377
Infrastructure--Land Improvements	21,017,850	\$ 1,295,601		22,313,451
Subtotal	21,290,227	1,295,601	\$ -	22,585,828
Capital Assets Being Depreciated				
Buildings	2,103,724			2,103,724
Road Equipment	11,054,209	342,919	97,300	11,299,828
Shop Equipment	151,310			151,310
Engineers' Equipment	74,095	4,272	2,950	75,417
Yard and Storage	697,361			697,361
Office Equipment	197,733			197,733
Vehicles	36,975			36,975
Depletable Assets	161,686			161,686
Infrastructure--Bridges	4,984,372	923,919		5,908,291
Infrastructure--Roads	27,987,783	2,011,581		29,999,364
Total	47,449,248	3,282,691	100,250	50,631,689
Less Accumulated Depreciation				
Buildings	1,225,784	43,715		1,269,499
Road Equipment	9,991,552	379,811	97,300	10,274,063
Shop Equipment	113,056	8,664		121,720
Engineers' Equipment	62,480	3,550	2,950	63,080
Yard and Storage	207,174	44,457		251,631
Office Equipment	179,150	6,757		185,907
Vehicles	36,975			36,975
Depletable Assets	161,686			161,686
Infrastructure--Bridges	1,388,877	102,262		1,491,139
Infrastructure--Roads	12,793,454	1,435,513		14,228,967
Total	26,160,188	2,024,729	100,250	28,084,667
Net Capital Assets Being Depreciated	21,289,060	3,282,691	2,024,729	22,547,022
Total Net Capital Assets	\$ 42,579,287	\$ 4,578,292	\$ 2,024,729	\$ 45,132,850

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 379,812
Indirect Equipment	85,274
Net Administrative Expenses	
Office	6,757
Engineering	3,550
Building	11,561
Infrastructure Depreciation	<u>1,537,775</u>
Total Depreciation Expense	<u><u>\$ 2,024,729</u></u>

### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims, employee group life coverage as detailed in Note F, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Marquette County Road Commission became a member of the pool in 1980 for workers' compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

## MARQUETTE COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--EMPLOYEES' RETIREMENT SYSTEM

The Marquette County Road Commission has two pension plans: the Northwestern Mutual Life Insurance Company Defined Benefit Plan and Trust for one of its full-time employees, and the Michigan Employees' Retirement System for the remaining full-time employees.

##### Union Employees' Plan--Profit Sharing Plan

The one employee is covered under a defined benefit pension plan with the Northwestern Mutual Life Insurance Company Defined Benefit Plan and Trust. The plan administrator is the Road Commission, who has established a trust fund administered by Northwestern Mutual Life Insurance Company Defined Benefit Plan and Trust. During the fiscal year ended September 30, 2007, the Marquette County Road Commission's required and actual contributions amounted to \$3,972. Pension Fund contributions are based on insurance contract premium actuarial assumptions for the covered employee. The most recent period for which the value of the plan assets were available was for the fiscal year ended September 30, 2007.

##### Description of Plan and Plan Assets

The Marquette County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. The MERS actuarial report was made in accordance with generally recognized actuarial methods in compliance with Public Act 220 of 1996, as amended, and the MERS plan document as revised. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does require employees to contribute to the plan as follows: union employees 2.32%, nonunion employees 1.90%, Engineer 2%, Administration 1.79% and Spintdt 2%. The Road Commission is required to contribute at an actuarially determined rate for the union, non-union, engineer, administration and Spintdt; the rate was 22.01%, 30.99%, \$1,346/month, 23.55% and \$274/month, respectively, for the calendar year ending December 31, 2006.

# MARQUETTE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE J--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Annual Pension Cost

During the calendar year ended December 31, 2006, the Road Commission's contributions totaling \$576,229 (\$558,214 for employer and \$66,905 for employees) were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 29 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Employer Annual Pension Cost (APC)</u>	<u>Employee Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 558,214	\$ 66,905	100%	\$0
2005	669,884	187,968	100%	0
2006	705,829	59,660	100%	0

#### Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 9,113,598	\$ 17,146,651	\$ 8,033,053	53%	\$2,671,786	301%
12/31/05	9,732,041	18,121,910	8,389,869	54%	2,728,736	307%
12/31/06	10,361,813	20,058,082	9,696,269	52%	2,614,929	371%

Significant actuarial assumptions used include:

- 1) Long-term investment yield rate of 8%;
- 2) Annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and
- 3) Base inflation of 4.5%.

## MARQUETTE COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note J, the Marquette County Road Commission provides post-employment health care insurance benefits to certain retired union and administrative employees and/or their spouse in accordance with the following provisions:

The hospital and medical coverage benefits are provided in accordance with Article 36 (3) in the union agreement, which states: For employees retiring at or after age fifty-five (55) with at least fifteen (15) years of service, because of age, are not eligible for Medicare coverage, the employer will pay the premium from age sixty (60) necessary for such hospital and medical coverage, including the master medical rider, up to the cost for two (2) party coverage (employee and spouse). For retired employees whose age permits them to be eligible for Medicare coverage, the employer will pay the premium for hospital and medical care coverage only in the amount which is necessary to augment Medicare coverage for the retired employee and their spouse; to the extent permitted by the insurance carrier, employees may elect continuation of the Master Medical rider at their own expense.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During the year ended September 30, 2007, 49 retirees and/or disabled employees were eligible for this benefit at a total cost of \$293,284.

The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment. However, at September 30, 2007, the Road Commission has made a board authorized, one-time contribution of \$250,000 to advance fund these benefits.

#### NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2007, the Federal aid expended by the Road Commission was \$1,363,059 for contracted projects and \$1,259,146 for negotiated projects. The difference between the revenue and expenditures for negotiated projects is due to a BIA project in progress at September 30, 2007, which had not been billed at the end of the year. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's Single Audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission and are subject to a single audit if the expenditures exceeded \$500,000.

A Single Audit was performed during the fiscal year ended September 30, 2007, as there was \$1,188,426 expended in Federal Awards.

**MARQUETTE COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF REVENUES--BUDGET AND ACTUAL  
For the Year Ended September 30, 2007**

**EXHIBIT I**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 17,500	\$ 17,500	\$ 20,933	\$ 3,433
Federal Grants				
Contracted				
Critical Bridges	4,000,000	2,465,567	666,288	(1,799,279)
Surface Transportation Program	1,000,000	250,000	263,021	13,021
Economic Development D Funds	1,000,000	150,000	153,115	3,115
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,000,000	3,106,750	3,038,760	(67,990)
Local Road	2,000,000	2,003,000	2,003,583	583
Urban Primary	176,750	161,000	161,280	280
Urban Local	200,000	106,000	106,362	362
Snow Removal	430,000	430,000	410,721	(19,279)
Critical Bridge	1,060,417	370,000	371,235	1,235
Economic Development Fund				
Rural Primary (D)	50,000	10,000	13,646	3,646
Forest Road	310,000	405,000	229,948	(175,052)
Jobs Today Program	100,000	80,000	82,793	2,793
Michigan DEQ	50,000	25,000	26,238	1,238
Contributions--Local Units				
Townships	600,000	1,361,896	744,688	(617,208)
Other Governmental	146,000	477,000	477,619	619
Charges for Services				
State Trunkline Maintenance	1,772,280	1,700,000	1,867,584	167,584
State Trunkline Non-Maintenance	153,000	150,400	45,240	(105,160)
Other Charges for Services	50,000	31,000	65,288	34,288
Salvage Sales	7,000	9,000	9,363	363
Interest and Rents				
Interest Earned	156,000	200,000	223,694	23,694
Rentals	50,000	50,000	51,653	1,653
Other Revenue				
Contributions From Other Sources	400,000	614,000	713,646	99,646
Gain on Asset Disposals	28,000	28,000	28,868	868
Sundry Refunds	10,000	10,000	10,617	617
Total Revenues	16,776,947	14,221,113	<u>\$11,796,183</u>	<u>\$ (2,424,930)</u>
Fund Balance--October 1, 2006	5,592,801	5,592,801		
Total Budget	<u>\$22,369,748</u>	<u>\$19,813,914</u>		

**The Notes to Financial Statements are an integral part of this statement.**

**MARQUETTE COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**For the Year Ended September 30, 2007**

**EXHIBIT J**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction / Capacity Improvements	\$ 100,000	\$ 100,000	\$ 48,193	\$ 51,807
Preservation/Structural Improvements	5,980,429	2,649,487	641,701	2,007,786
Routine and Preventive Maintenance	1,926,238	1,671,000	1,660,801	10,199
Local Road				
Construction		-	373,538	(373,538)
Preservation/Structural Improvements	1,500,000	1,978,223	1,838,016	140,207
Routine and Preventive Maintenance	2,912,666	2,805,931	2,805,648	283
Primary Road Structure				
Preservation/Structural Improvements	18,000	18,500	18,340	160
Routine and Preventive Maintenance	-	29,000	28,398	602
Local Road Structure				
Preservation/Structural Improvements	1,109,317	1,299,000	1,311,312	(12,312)
Routine and Preventive Maintenance	-	20,169	20,169	-
State Trunkline				
Maintenance	1,772,280	1,850,400	1,867,584	(17,184)
Non-Maintenance	153,000	-	45,240	(45,240)
Other--Fuel and General Services	5,144	25,000	21,926	3,074
Equipment Expense--Net	642,299	(35,250)		
Direct			\$ 1,880,095	
Indirect			1,291,614	
Operating			490,166	
Less: Equipment Rentals			(2,916,130)	(780,995)
Administrative Expense--Net				
Administrative Expense	424,933	406,632	410,086	(3,454)
Less: Handling Charges			641,630	
Overhead--State Trunkline			(202,288)	
Overhead--Other			(29,256)	
Purchase Discounts				
Capital Outlay--Net	680,000	400,000		
Capital Outlay			347,191	
Less: Depreciation Credits			(486,955)	
Equipment Retirements			-	539,764
Debt Service				
Principal	300,000	200,000	200,000	-
Interest	60,950	43,800	42,636	1,164
Total Expenditures	17,585,256	13,461,892	\$ 11,939,569	\$ 1,522,323
Fund Balance--September 30, 2007	4,784,492	6,352,022		
Total Budget	\$ 22,369,748	\$ 19,813,914		

**The Notes to Financial Statements are an integral part of this statement.**



**MARQUETTE COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2007**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,851,474	\$ 5,626,556	\$2,318,153	\$11,796,183
Total Expenditures	2,648,776	7,013,489	2,277,304	11,939,569
Excess of Revenues Over (Under) Expenditures	1,202,698	(1,386,933)	40,849	(143,386)
Other Financing Sources				
Interfund Adjustment	(961,812)	961,812		-
Transfer		425,121	(425,121)	-
Total Other Financing Sources	(961,812)	1,386,933	(425,121)	-
Excess of Revenues and Other Sources Over (Under) Expenditures	240,886	-	(384,272)	(143,386)
Fund Balance--October 1, 2006	1,520,598		4,072,203	5,592,801
Fund Balance--September 30, 2007	\$ 1,761,484	\$ -	\$3,687,931	\$ 5,449,415

**MARQUETTE COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES**  
**For the Year Ended September 30, 2007**

**EXHIBIT L**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$ 20,933	\$ 20,933
Federal Grants				
Contracted				
Critical Bridges	-	\$ 666,288		666,288
Surface Transportation Program	\$ 263,021			263,021
Economic Development D Funds	153,115			153,115
State Grants				
Michigan Transportation Fund				
Engineering	6,000	4,000		10,000
Allocation	3,038,760	2,003,583		5,042,343
Urban	161,280	106,362		267,642
Snow Removal		410,721		410,721
Critical Bridge Funds	-	371,235		371,235
Economic Development Fund				
Rural Primary (D)	13,646			13,646
Forest Road (E)	77,772	152,176		229,948
Jobs Today Program	82,793			82,793
Michigan DEQ		26,238		26,238
Contributions From Local Units				
Townships	-	744,688	-	744,688
Other Governmental Contributions	-	427,619	50,000	477,619
Charges for Services				
State Trunkline Maintenance			1,867,584	1,867,584
State Trunkline Non-Maintenance			45,240	45,240
Other Charges for Services			65,288	65,288
Salvage Sales			9,363	9,363
Interest and Rents				
Interest Earned	55,087		168,607	223,694
Rentals	-		51,653	51,653
Other Revenue				
Private Contributions		713,646		713,646
Gain on Asset Disposal			28,868	28,868
Sundry Refunds			10,617	10,617
Total Revenues	\$ 3,851,474	\$ 5,626,556	\$ 2,318,153	\$ 11,796,183

**MARQUETTE COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2007**

**EXHIBIT M**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Construction / Capacity Improvements	\$ 48,193			\$ 48,193
Preservation/Structural Improvements	641,701			641,701
Routine and Preventive Maintenance	1,660,801			1,660,801
Local Road				
Construction / Capacity Improvements		\$ 373,538		373,538
Preservation/Structural Improvements		1,838,016		1,838,016
Routine and Preventive Maintenance		2,805,648		2,805,648
Primary Road Structures				
Preservation/Structural Improvements	18,340			18,340
Routine and Preventive Maintenance	28,398			28,398
Local Road Structures				
Preservation/Structural Improvements		1,311,312		1,311,312
Routine and Preventive Maintenance		20,169		20,169
State Trunkline				
Maintenance			\$ 1,867,584	1,867,584
Non-Maintenance			45,240	45,240
Other--Fuel and General Services			21,926	21,926
Equipment Expense--Net (Per Exhibit J)	138,933	367,130	239,682	745,745
Administrative Expense--Net (Per Exhibit J)	112,410	297,676		410,086
Capital Outlay--Net (Per Exhibit J)			(139,764)	(139,764)
Debt Service				
Principal			200,000	200,000
Interest			42,636	42,636
Total Expenditures	\$ 2,648,776	\$ 7,013,489	\$ 2,277,304	\$ 11,939,569



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

March 27, 2008

Marquette County Road Commission  
Board of County Road Commissioners  
1610 North Second Street  
Ishpeming, Michigan 49849

RE: Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of the Financial Statements Performed in  
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Marquette County Road Commission, a component unit of Marquette County, as of and for the year ended September 30, 2007, and have issued our report thereon dated March 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marquette County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marquette County Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Marquette County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Marquette County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Comments and Recommendations to be significant deficiencies in internal control over financial reporting which are listed as Findings 07-1 through 07-6.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Marquette County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marquette County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Comments and Recommendations as Findings 07-7 through 07-10.

We also noted "Other Matters" that we reported to the management of Marquette County Road Commission's in the accompanying Comments and Recommendations as Findings 07-11 and 07-18.

This report is intended solely for the information of the Marquette County Board of Road Commissioners, the Road Commission's management and others within the Road Commission, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## MARQUETTE COUNTY ROAD COMMISSION

### SCHEDULE OF FINDINGS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Marquette County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Marquette County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Listed below are significant deficiencies in the internal control and other matters which we have reported to the management of the Road Commission.

#### SIGNIFICANT DEFICIENCIES

##### Reconciling Cash to County Treasurer's Books

*Finding 07-1*

*Condition:* Bank accounts were not reconciled with the county treasurer's general ledger. The county's general ledger was a few months behind and was unreconciled at year end.

*Criteria:* According to the Accounting Procedures Manual, the county treasurer must reconcile each month's bank statement. The treasurer must provide the Road Commission with a listing of all cash and investments on a monthly basis along with copies of the bank reconciliations. The Road Commission must then reconcile cash and investments with the treasurer's trial balance.

*Recommendation:* We recommend that the county treasurer reconcile the cash and investment accounts on a timely basis and send the trial balance to the Road Commission on a timely basis so they can reconcile the Road Commission's balances to the treasurer's trial balance.

##### Concentration of Credit Risks

*Finding 07-2*

*Condition:* The majority of the Road Commission's cash and investments are maintained in one financial institution.

*Criteria:* According to the Accounting Procedures Manual for Road Commissions recommended Investment Policy and the Road Commission's Investment Policy, the primary objectives of the Road Commission's investment activities (in priority order) shall be:

- Deposits and Investment Risk--deposits and investments shall have sufficient safety and diversity to assure that the Road Commission's exposure to credit risk and interest rate risk is low, where credit risk is defined as the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Credit risk includes: Concentration of Credit Risks--the risk of loss attributed to the magnitude of a government's investment in a single issuer; and Custodial Credit Risk--the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities of that are in possession of an outside party.

# MARQUETTE COUNTY ROAD COMMISSION

## SCHEDULE OF FINDINGS

### SIGNIFICANT DEFICIENCIES (Continued)

- Safety--safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.
- Diversification--the investments will be diversified by security type and by institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- Liquidity--the investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- Return on Investment--the investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

*Recommendation:* We recommend that the county treasurer diversify the cash and investments of the Road Commission and reduce the credit risks by depositing the funds of the Road Commission in more than one financial institution.

### Old Outstanding Accounts Receivables

*Finding 07-3*

*Condition:* There are several accounts receivable which have been outstanding over one year and are not expected to be collected within 60 days of year end. These balances are presented in the table below. Also see Finding 07-9.

<u>Customer</u>	<u>Date</u>	<u>Amount</u>
Big Bay Snowmobile Club	05/01/06	\$ 580.04
Cleveland Cliffs	12/28/05	661.66
Brian Curry	04/27/06	126.02
Marquette County Drain Commission	09/30/06	792.60
Gilbert Liquia	04/14/04	20.00
Daniel McQuaid	12/31/01	3,780.00
Mead Westvaco	11/18/04	(159.23)
Josh Mongiat	09/29/06	126.33
North Natural Gas Company	04/27/06	4,368.59
Steve O'Connell	04/27/06	318.49
Perkins Park	09/28/05	1,498.44
Eric Scott Sarasin	02/03/06	357.40
Sundberg & Associates	09/18/06	<u>2,415.00</u>
Total Outstanding Checks Over One Year Old		<u><u>\$14,885.34</u></u>

*Criteria:* According to the modified accrual basis of accounting, revenue is recognized when it is both measurable and available. The amounts recorded in this situation are not available.

# MARQUETTE COUNTY ROAD COMMISSION

## SCHEDULE OF FINDINGS

### SIGNIFICANT DEFICIENCIES (Continued)

*Recommendation:* The Road Commission should investigate the old accounts receivable and either collect, write-off, or defer the revenue and adjust the receivable accordingly.

#### Accounts Receivable Reconciliation, Review and Write-Offs

*Finding 07-4*

#### *Condition:*

1. The accounts receivable detail could not be reconciled to the general ledger as not all township receivables are reflected in the detail.
2. The accounts receivable aging is not reviewed by anyone other than the person responsible for maintaining the receivables.
3. A balance was written off on a township agreement without board approval.

*Criteria:* The Accounting Procedures Manual states that all subsidiary ledgers should be reconciled to the general ledger on a regular basis. Receivables from miscellaneous activities should be periodically reviewed by the governing board. A responsible official (board) must approve all write-offs of receivables.

*Recommendation:* We recommend that all accounts receivable balances be included in the detail report and that the detail be reconciled to the general ledger monthly and that the board reviews a copy of the accounts receivable on a monthly basis. We also recommend that all write-off's of receivables be presented to the board for the board's approval.

#### Grant Revenue/Expenditure Cut-Off Procedures

*Finding 07-5*

*Condition:* Revenues were recognized at year end for expenditures that were not submitted to the State until October and November. There were also roads that were accepted into the county's road system that did not have the respective revenues and expenditures reported in the financial statements.

*Criteria:* Procedures should be in place to ensure timely reporting of all revenues and expenditures.

*Recommendation:* We recommend that the pay estimates are submitted to MDOT at year end for all costs incurred to ensure that the cut off is done timely and expenditures and revenues are recognized in the proper period and for the proper amounts.



# MARQUETTE COUNTY ROAD COMMISSION

## SCHEDULE OF FINDINGS

### SIGNIFICANT DEFICIENCIES (Continued)

#### Disbursement Procedures

*Finding 07-6*

*Condition:* During our review of cash disbursements we found the following:

1. One person is responsible for processing the “approved” invoices to the computer system and printing the vendor checks that contain electronic signatures. After the negotiated checks are printed, they are sent to another person for review.
2. Many vendor invoices did not contain a signature (or initials) indicating that the invoice is approved and that the proper amounts/quantities and accounts are correct.
3. Vendor invoices did not always contain account classifications or job costs.
4. Vendor invoices were not effectively canceled to prevent duplication of processing.
5. We also noted that checks are returned to the person who prepared them rather than being given to another employee to mail out.
6. The board does not approve the checks until after they are mailed out.

*Criteria:* Internal controls dictate that transactions should be authorized prior to taking place. Control activities also suggest the importance of complete and accurate recording of transactions, including the account classification of expenditures. Duties and responsibilities need to be segregated among different people to reduce the risk of error or fraud.

*Recommendation:*

1. All invoices have evidence of approval (signature or initials) prior to posting them to the system.
2. The vendor invoices should be stamped or marked “paid” after they are posted to the computer. Payments should be made based on original documentation (not statements).
3. The signature plates should not be in the possession of the person processing the checks for payment.
4. The office manager could manually sign checks as part of the review process to ensure that checks and invoices are reviewed prior to mailing the checks.
5. More care needs to be taken to ensure that account classifications are evident on each invoice or voucher.
6. Checks should not be returned to the one who prepares them but given to another employee to distribute.

# MARQUETTE COUNTY ROAD COMMISSION

## SCHEDULE OF FINDINGS

### NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures.

#### General Appropriations Act (Budgeting)

*Finding 07-7*

*Condition:* During the fiscal year ended September 30, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

<u>Activity</u>	<u>Final Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
Local Road Construction/Capacity Improvements		\$ 373,538	\$ (373,538)
Local Road Structure			
Preservation/Structural Improvements	\$ 1,299,000	1,311,312	(12,312)
State Trunkline Maintenance	1,850,400	1,867,584	(17,184)
State Trunkline Non-Maintenance		45,240	(45,240)
Net Equipment Expense	(35,250)	745,745	(780,995)
Net Administrative Expense	406,632	410,086	(3,454)

*Criteria:* MCL 141.437 Section 17 (1) states: "Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit."

MCL 141.439 Section 19 (1) states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

*Directive:* We direct the Road Commission to comply with the above statutory budgeting requirements to develop budgetary control procedures, which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof. We also recommend that the Road Commission budget revenues and expenditures based on actual accounts used.

# MARQUETTE COUNTY ROAD COMMISSION

## SCHEDULE OF FINDINGS

### NONCOMPLIANCE WITH STATE STATUTES (Continued)

#### Unclaimed Checks Over 1 Year Old

*Finding 07-8*

*Condition:* There were three checks outstanding on the vendor bank reconciliation that were over one year old.

*Criteria:* MCL 567.234 Property held by court, governmental agency, or public corporation or authority, Section 14 states: Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned. MCL 567.238 Report of presumed abandoned property; duties of property holder requires that this money be paid over to the Unclaimed Property Division of the Michigan Department of Treasury on or before November 1<sup>st</sup> of each year for the 12 month period ending on the immediately preceding June 30<sup>th</sup>.

*Directive:* We direct the Road Commission to investigate the unclaimed checks and take the appropriate action in accordance with the Uniform Unclaimed Property Act laws.

#### Granting Credit of the Road Commission

*Finding 07-9*

*Condition:* At September 30, 2007, there were old outstanding receivables dating back to 2004. Also see Finding 07-3.

*Criteria:* The use of public money for a private purpose without compensation has been deemed by the Michigan Supreme Court to be a violation of the State Constitution, Article 9, Section 18, "The credit of the state shall not be granted to, nor in aid of any person, association or corporation, public or private, except as authorized in this constitution." For example, in *Alan v Wayne County*, 388 Mich 210 (1972), the Michigan Supreme Court ruled that a unit of government may not give away public property of value without fair compensation. The Supreme Court in the decision of *Black Marsh Drainage District v. Rowe* [1958], 350 Mich. 470, held that this provision applies to all political subdivisions of the state.

*Directive:* We direct that the Road Commission make every effort to collect payment in advance of any services provided to private parties and other contractual agreements.

#### Credit Card Policy Purchases

*Finding 07-10*

*Condition:* During our review of invoices, we noted several instances where there were violations to the County Credit Card Policy and State statutes (i.e., detailing the goods or services purchased, the official business for which the goods or services were purchased and its approval). The receipt should also indicate the area(s) benefiting from the credit card purchase.

## MARQUETTE COUNTY ROAD COMMISSION

### SCHEDULE OF FINDINGS

#### NONCOMPLIANCE WITH STATE STATUTES (Continued)

*Criteria:* The Road Commission's Credit Card Policy and MCL 129.243 states the following:

- a) An officer or employee designated by the credit card policy is responsible for the local unit's credit card issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) ...The credit card policy may limit the specific official business for which credit cards may be used.
- c) That an officer or employee using credit cards issued by the local unit shall submit to the local unit documentation described in the credit card policy detailing the goods or services purchased, the cost of the goods or services, the date of the purchase, and the official business for which purchased.
- d) For a system of internal accounting controls to monitor the use of credit cards issued by the local unit.
- e) For approval of the credit card invoices before payment.
- f) Any other matters the governing body considers advisable.

*Recommendation:* We recommend that the Road Commission adheres to the credit card policy and State statute when using the Road Commission's credit cards.

#### OTHER MATTERS

##### Performance Deposits Payable

*Finding 07-11*

*Condition:* Performance deposits from contractors are kept in the vault and never deposited. At September 30, 2007, the total amount of deposits on hand was \$23,000.

*Criteria:* According to the Accounting Procedures Manual, all receipts must be deposited on a timely basis.

*Recommendation:* We recommend that the Road Commission deposit performance deposits with all other deposits and issue a check back to the contractor when the guarantee period is done.

##### Inventory

*Finding 07-12*

*Condition:* We randomly selected 25 various stock items from the part and sign inventories. We compared the inventory status report with the actual counts to determine the accuracy of the inventory status reports. We also compared the distribution report with the inventory status report at September 30, 2007. We found that 4 items had discrepancies as a result of weaknesses over the internal control of inventory items. We also found that the inventory status report did not reconcile to the general ledger control accounts for inventory and that this reconciliation was not performed monthly.

## MARQUETTE COUNTY ROAD COMMISSION

### SCHEDULE OF FINDINGS

#### OTHER MATTERS (Continued)

*Criteria:* All assets must be safeguarded and detailed records must be reconciled to control totals.

*Recommendation:* We recommend that physical inventory be performed on the parts with higher turnover as well as high priced inventory on a more frequent basis. We also recommend that the inventory stock status report agree to the general ledger at least on a monthly basis.

#### Inventory Process

*Finding 07-13*

*Condition:* One person is primarily responsible for custody, ordering, receiving, authorizing and adjusting inventory in the perpetual system.

*Criteria:* The Accounting Procedures Manual calls for segregation of duties, which requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

*Recommendation:* We recommend that the Road Commission implement other controls to mitigate the lack of segregation of duties such as: another employee entering adjustments or usage of materials or management review of all adjustments. There could be other controls that the Road Commission could implement as long as another person is involved within the process.

#### Safeguarding Blank Checks

*Finding 07-14*

*Condition:* Blank checks are not kept in a secure location.

*Criteria:* According to the Accounting Procedures Manual, blank checks should be kept in a secure (locked) location.

*Recommendation:* We recommend that the Road Commission find a secure location to store blank checks.

#### Receipting

*Finding 07-15*

*Condition:* Money receipted by the Road Commission is entered through the computer receipt system, but printed receipts are not kept in sequential order. Also, voided/deleted receipts disappear from the system and copies are not kept in the receipt book.

*Criteria:* According to the Accounting Procedures Manual, a receipting system must include controls to ensure that receipts are maintained in sequential order and all receipts are accounted for.

## MARQUETTE COUNTY ROAD COMMISSION

### SCHEDULE OF FINDINGS

#### OTHER MATTERS (Continued)

*Recommendation:* We recommend that the Road Commission maintain their receipts in sequential order and voided receipts be printed and placed in their proper sequence. No receipts should be deleted.

#### State Trunkline Audit Refund

*Finding 07-16*

*Condition:* The Road Commission received a refund for the State Trunkline audit, which they netted against other revenues and expenditures.

*Criteria:* According to the Accounting Procedures Manual for Road Commissions, results of prior years' audit adjustments should be recorded in account #627.

*Recommendations:* We recommend that the Road Commission record audit adjustments for the State Trunkline in account #627.

#### Pre-paid Unauthorized Clothing Allowance

*Finding 07-17*

*Condition:* During the course of our review for disbursements, we found that some employees (in addition to mechanics and greasers) are receiving uniforms (pants and shirts) and subsequently reimbursing the Road Commission for the weekly rentals of the pants and shirts. The Road Commission is paying for rental of the employee's clothing on a monthly basis, and has to determine how much should be deducted from the employee's payroll to cover the cost. There are some cases where the Road Commission has paid for damages, service charges, emblems, miscellaneous items, etc., and the employee was not charged by the Road Commission. The cost is approximately \$10/week per employee, but varies based on what is rented. There are no approvals on these invoices and it is difficult to verify which employees rented and how many items were rented and returned by each employee.

*Criteria:* The union contracts states: "The employer will bear the cost of a coverall service, comparable to the current service, providing three (3) pairs of coveralls for regular full-time mechanics and the greaser."

*Recommendation:* We recommend that the Road Commission discontinue the practice of paying for clothing rental for its employees who are not covered under the union agreement. All invoices must be approved prior to payment.

## MARQUETTE COUNTY ROAD COMMISSION

### SCHEDULE OF FINDINGS

#### OTHER MATTERS (Continued)

##### Taxable Compensation

*Finding 07-18*

*Condition:* The county board of road commissioners receives commutable (from their home to workplace) mileage reimbursement as compensation that is not included as part of their taxable wages. We could not find any support for the commutable mileage reimbursement as part of compensation for the road commissioners set by the county board of commissioners.

*Criteria:* Travel to and from meetings (at the office) is not authorized unless part of the original compensation package. According to IRS rules and regulations, all compensation is taxable and shall be reported as wages.

*Recommendation:* We recommend that the Road Commission get clarification from the county board for compensation for commutable mileage and for the Road Commission to update their compensation package. This will ensure compliance with IRS regulations and clearly identify all compensation, such as per diems, commutable mileage for in house meetings or any other fringe benefit. The commutable mileage shall be part of the payroll system with the appropriate payroll taxes withheld.